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SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
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TREASURY FOR OAISA/RALYEA/CUSHMAN
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TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
November 4 2005 ISSUE

¶1. Summary. Each week, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Consumer Credit Demand High but Below Expectations;
- Lack of Steady Employment Bars Widespread Bank Account Usage;
- DTI Minister Reiterates Importance of Chinese Trade;
- October Shows Slowing in Manufacturing Sector Growth;
- Labor Department Reviewing UIF Benefits;
- September's Trade Deficit Widens;
- Gasoline Price Reduction Lowers Risk of Increases in Interest Rates;
- Public Works Having Little Impact on Employment; and
- August Retail Sales Jump.

End Summary.

CONSUMER CREDIT DEMAND HIGH BUT BELOW EXPECTATIONS

¶2. Demand for credit rose slightly more than expectations in September, as consumers continued to take advantage of the current low interest-rate environment. According to figures released by the South African Reserve Bank (SARB), private sector credit extension rose 22.9% year on year in September, compared to 22.7% in August, driven mainly by mortgage advances, which rose R12.6 billion. M3, the broadest measure of money supply, slowed to 16.7%, from 19% in August, due to a decline of R11.18 billion in net claims on the government sector. A Reuter's poll consensus forecast predicted that private sector credit demand and M3 would rise 22.1% and 17.9%, respectively. Installment sales credit declined R374 million in September, reducing growth in this category to 21.5% y/y compared to August's growth of 23.8%. Recent statements by the SARB Governor Tito Mboweni about the inflationary risk from high oil prices led many analysts to expect an interest rate hike in December. However, with September money supply growth slowing down and producer and consumer inflation below market forecasts, December interest rates may remain unchanged. Source: Business Day, October 31.

LACK OF STEADY EMPLOYMENT BARS WIDESPREAD BANK ACCOUNT USAGE

¶3. According to a FinScope 2005 survey, 57% of South Africans polled cite lack of employment as the main reason for not having a bank account, while 43% say it is because they have no regular income, and 15% say it is because they have no money to save. Because of the large numbers not using financial services, 47% of money received in the country does not go into a bank account. In addition, roughly 3.6 million South Africans, or 25% of all those with bank accounts, withdraw all the money out of their accounts as soon as it is deposited. There has been a slight increase in the number of South Africans with a bank account, largely due to the introduction of the low-cost Mzansi account a year ago. About 550,000 or 4% more accounts were held in June 2005 compared to the previous year, leading to a 1% increase in the number of South Africans participating in the formal financial sector. According to FinScope 2005, 15% of those people who have opened an Mzansi account are not using it; 38% opened an Mzansi account in addition to having another account; and 27% opened an Mzansi account to replace another bank account. Regarding debt, the survey found that 79% thought that taking out loans should be avoided as much as possible. However, the survey noted that the main reason why black and "coloured" South Africans borrowed money was to buy food when their own money had run out, contrasting with the main reason why white and Asian South Africans borrowed money - which was to buy a car. Research Surveys conducted 3,885 interviews across South Africa on behalf of FinMark Trust for FinScope 2005 between June and August
¶2005. Two-thirds of the respondents lived in non-metropolitan areas. Source: Business Day, October 31.

DTI MINISTER REITERATES IMPORTANCE OF CHINESE TRADE
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¶4. Citing the overall Chinese trade relationship as more important than any one sector, Department of Trade and Industry Minister Mandisi Mpahlwa said South Africa would not impose quotas on Chinese textile imports. Mpahlwa said the government must consider the entire trading relationship. South African import tariffs on textiles are being reviewed, aimed at reducing costs for local clothing manufacturers. Customs inspection was being improved to reduce illegal or under-invoiced imports. An increase in cheaper Chinese imports led to a reduction of than 50,000 South African clothing and textile jobs in
¶2005. Source: Business Report, October 31.

OCTOBER SHOWS SLOWING IN MANUFACTURING SECTOR GROWTH
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¶5. The seasonally adjusted Investec Purchasing Managers Index (PMI) slowed to 54.1 in October from 55.7 in September. The decline in the PMI was mainly due to a drop in the activity index to 56.3 from 61.2, while the new orders index fell to 55.7 from 62.1. The index is still above the critical level of 50, indicating continued growth in the manufacturing sector. Despite the moderation in the business activity index, the seasonally adjusted employment index increased from 48.1 in September to 53.4 in October. Increases were also recorded in the sub-indices of inventories and suppliers performance, but they were not enough to prevent the decline in the overall index. The PMI price index rose further to 62.2 in October from 60.3 in September, indicating increasing cost pressures. Manufacturers' six-month expectations of business conditions improved marginally in October to 66, compared to the 65.4 recorded in September. Improvement in business conditions was expected by 43% of the respondents, while 11% anticipate deterioration in conditions. Source: I-Net Bridge, November 1.

LABOR DEPARTMENT REVIEWING UIF BENEFITS

¶6. The Department of Labor plans to review the benefits under the Unemployment Insurance Fund (UIF) because monthly income received at R500 million ($92 million, using 6.5 rands per dollar) far exceeds monthly expenditure at R200 million ($31 million). Labor Deputy Director-General Les Ketteldas told Parliament's labor portfolio committee that contribution income had increased because higher income earners had been included as contributors and they did not use unemployment benefits as much as low income earners. According to the UIF's annual report for the year ended March 31, 2005, revenue contributions were over R6 billion ($920 million), up from R5.6 billion ($860 million) in the previous year. Benefit payment to contributors rose from R2.1 billion ($320 million) to R2.5 billion ($385 million) in 2005. The net surplus for the year rose from R121 million ($18.6 million) to R2 billion ($308 million). Starting November 1, recipients of unemployment benefits will be able to receive payments electronically, reducing time spent long lines waiting to receive monthly checks. Source: Business Report, October 31; Business Day, November 1.

SEPTEMBER'S TRADE DEFICIT WIDENS

¶7. For the second month in a row, South Africa's trade deficit widened due to an increase in crude oil imports and a relatively stronger rand. Figures released by the South African Revenue Service show that the trade deficit increased to R3.7 billion in September, from R3.24 billion in August. During the month, imports climbed 3.3% to R33 billion ($5.1 billion), while exports rose 2% to R29.3 billion ($4.5 billion). Analysts said the steady increase in exports may be an indication that the export sector was adjusting to a stronger rand. The sector has been under pressure over the past two years, as a strong local currency undermined its competitiveness. On average, the rand was trading at R6.36 to the dollar, compared with R6.47 in August. September oil imports, which account for 12% of the country's imports, increased by 44%. Oil imports made up almost a quarter of total imports in September. For the first nine months of this year, the trade deficit amounted to R15.9 billion, more than double the R6.6 billion deficit recorded over the same period in
¶2004. In 2003, the trade balance recorded a surplus of R17.4 billion. Source: Business Day, November 1.

GASOLINE PRICE REDUCTIONS LOWERS RISK OF INCREASES IN INTEREST RATES
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¶8. November's expected 31 rand cents per liter reduction

in the retail gasoline price lowers the risks of a December interest rate increase. Continuing high oil prices and their possible second-round effects on CPIX inflation were cited as primary inflationary risks in the October Monetary Policy Committee statement. Recent statements by the South African Reserve Bank Governor Mboweni have continued to warn of possible interest rate hikes due to higher oil prices. According to T-Sec economist Mike Schussler, however, there was no evidence of second-round inflationary effects. If transport operating costs, which are mostly fuel, are excluded from CPIX, then inflation rose by 3.5% y/y in September from 3.7% y/y in August. Source: I-Net Bridge, November 2.

PUBLIC WORKS HAVING LITTLE IMPACT ON EMPLOYMENT
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¶9. The South African public works program's impact on jobs creation and development has been limited, according to research by Anna McCord, a research associate at the Southern Africa Labor and Development Research Unit at the University of Cape Town. McCord's research showed that during 2004/05, 170,000 jobs, lasting four months, were created, making it unlikely that government's employment targets would be met. The public works program also strained management capacity to handle the temporary workers. McCord's research showed that only 3% of people benefiting from the public work job program are eligible for internships or apprentice programs in the construction sector. McCord, the head of the Public Works Research Project, presented her results to Parliament's Committee on Public Works. Source: Business Day, November 2.

AUGUST RETAIL SALES JUMP

¶10. According to Statistics South Africa (StatsSA) latest release of retail sales, August's inflation-adjusted sales growth reached 7.2%, up from July's 5.8% growth. This boost in retail sales indicates that consumer spending growth may remain high; however, more recent car sales trends may indicate otherwise. Passenger car sales, a leading indicator for retail sales, recorded particularly strong growth in August at 28% y/y. Since then, the car sales growth has decelerated, with October's increase coming in at 18.1% y/y. Overall, analysts expect consumer demand to remain strong, although soften in the coming months. Insolvencies are at their 18-year low and the percentage of non-performing loans reached its lowest levels in the past four years. Source: Taking Stock, Standard Bank, November 2.

HARTLEY